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DE RUEHDO #0369 1531231
ZNR UUUUU ZZH
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FM AMEMBASSY DOHA
TO RUEHC/SECSTATE WASHDC PRIORITY 9115
INFO RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY
RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE

UNCLAS DOHA 000369

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [EINV](#) [EFIN](#) [QA](#)
SUBJECT: QATAR PRIMES LOCAL BANK LENDING

REF: DOHA 135

(U) KEY POINTS

-- Qatar announced 28 May its readiness to inject up to another USD 4.1 billion into local banks by offering to buy their real estate assets.

-- This is the third time since October 2008 the GOQ has intervened in the local banking sector. The government used its sovereign wealth fund, the Qatar Investment Authority (QIA), to take equity stakes in local banks last winter, and bought several large investment portfolios from the banks this spring.

(SBU) COMMENT

-- There is no authoritative data, but various commercial estimates indicate Qatar's residential real estate prices have dropped about 30 percent in Doha with land prices dropping between 40 inside, and 70 percent outside, the capital. Bank lending to domestic real estate had all but dried up over the past few months, and the GOQ intends this intervention to prime more lending to the sector and across the economy.

-- In the absence of formally declared guarantees and deposit insurance schemes, the GOQ announcement is a loud statement of support for the banks.

-- A credit slowdown and real estate downturn notwithstanding, Qatar's economy is projected to grow at 10 percent in 2009, an extraordinary figure, given the severity of the global downturn. The government's large role in the economy and the strength of its balance sheets due to ramping hydrocarbon exports is the primary reason for this growth.

End Key Points andComment.

¶1. (U) In announcing the move, Prime Minister Hamad Bin Jassim Al hani said the government would have a ceiling of 5 billion Qatari Riyals (USD 4.1 billion) for buying loans and the action is being taken "so that the banks can continue to play their vital role in the national economy and accelerate domestic growth."

¶2. (SBU) Embassy's banking sector contacts hailed the GOQ announcement and view the intervention as helping to prevent problems with their balance sheets down the road. It also appears that the Qatari action was taken on the government's initiative, and not in reaction to a clamor for help from local banks. Details remain unclear - i.e., whether the GOQ or institutions will decide which assets to sell to the government.

¶3. (SBU) Banks' real estate portfolios have grown quickly in recent years, though only 13 percent of total credit facilities are allocated to real estate, based on Central Bank figures from last year. Moreover, banks are restricted from lending more than 15 percent of their total portfolio to the real estate sector. A GOQ buyout of the banks' assets would free up their books to allow more lending.

¶4. (U) The Doha Securities Market (DSM) responded positively to the news, jumping almost 6 percent on Sunday.

¶5. (SBU) Embassy's banking contacts were less sanguine about the state of commercial lending, which remains a problem and the area most likely to see a rise in non-performing loans. In recent years, many banks (and borrowers) over-extended themselves via easy credit for personal loans.
LeBaron